To: Mr. Joshua McMurray, City Manager, City of Oakley

From: Andy Belknap, Senior Vice President

Patrick O’Keeffe, Special Advisor

Pete Gonda, Senior Manager

Subject: Initial Feasibility Analysis for Oakley Library Mixed-Use Project

Date: January 20, 2023

Management Partners was engaged by the City of Oakley to assist in determining the feasibility of constructing a new library as a unifying location for seniors, youth, and veterans, and a potential satellite location for County services. To further these goals, the City recently entered into a cooperative agreement with Contra Costa County to share the cost of demolishing a vacant Sheriff’s Office substation adjacent to City-owned property that could pave the way for a downtown community library and other potential uses. The agreement includes a provision to transfer ownership of the building from the County to Oakley if library funding is secured by the City by July 30, 2024. Together, the parcels comprise a 1.2-acre site that could possibly support a library, senior center, and veteran’s hall (jointly referred to as a community center).

The concept being evaluated is the feasibility of creating a public/private partnership (PPP) with a private developer for a mixed-use development of private residential and public community center. The private development would contribute all or a portion of the cost of constructing the public community center space.

The following summarizes the background materials evaluated and provides an initial analysis of the feasibility of constructing a mixed-use project on the joint City/County parcels on the block bounded by O’Hara, East Acme, Second, and East Ruby streets. If the results of this preliminary analysis prove attractive to the City Council and staff, it could be followed by a more detailed study by a consultant team with architectural and economic expertise to develop the concept further. In this eventuality, it would be appropriate for the City to issue a request for proposals (RFP) to select a consultant team (which is the next phase in Management Partners' scope of services).

Executive Summary

This memorandum discusses the basic structure and approach to a PPP approach for a new library and other public improvements on the 1.2-acre O'Hara/Acme site, with the public amenities to be supported to the maximum extent possible by private residential development. The major limiting factors for a successful project at this location are the relatively small size of the parcel and limited potential for residential density. It does appear a subset of PPP approaches are feasible.

The memorandum presents several potential approaches, including the development parameters and economics at a high level. We examine a similar nearby project, the Oakley project as currently envisioned, and three potential alternative approaches, including one project that uses an adjacent property to reduce the need for overall public funding.

Finally, we outline our conclusions and the next steps should City leaders wish to proceed further with the concept. Below are some important high-level results from our analysis.

1. It is potentially feasible to sell the O'Hara/Acme site for a mixed-use public private partnership development that would combine private residential with a public community center. The entire block will be needed to make the project feasible, as there is not enough space on just the County parcel to accommodate all the public uses and the private residential uses. Additional analysis by design and economic experts will be required to further test the concept.
2. A private residential development will generate only a portion of the funding required for the public community center, necessitating additional public funds.
3. The size of the community center is the most important factor to determine feasibility. Additional analysis by an architect is needed to identify the appropriate size and cost of the center within the financial resources available.
4. The second most important feasibility factor is the density of the residential project. More units equal more funding for the public space.
5. The amount of affordable housing required negatively impacts the private funds that can be generated for the public community center. The 25% affordable housing requirement under the Surplus Land Act is assumed as the maximum to be required by the City.
6. There are sufficient positive results from the preliminary analysis to justify going further with the issuance of an RFP for a design and economic consulting team to further test the concept.

The following detailed analysis includes the following topics:

- Background materials reviewed,
- Examples of public private partnerships (PPP),
- Summary of the County Bay Point residential and library PPP,
- Development parameters and constraints for the Oakley project,
- Initial feasibility analysis for Oakley project with three different scenarios,
- Other sources of financing,
- Property ownership structures, and
- Conclusion.

Background Materials Reviewed

The following documents were reviewed for this analysis:

- Cooperative Agreement with Contra Costa County for Demolition and Purchase of the County parcel,
- Parcel map and assessors' information for the County parcel and adjacent City Senior Center parcel,
- Contra Costa County Library Partnerships material,
- January 2016 Staff Report regarding Ballot Measure K,
- Downtown Specific Plan,
- Zoning Ordinance,
- Noll & Tam library concept drawings,
- California Surplus Land Act,
- City Five-Year Capital Improvement Program (CIP), and
- City Annual Comprehensive Financial Report (ACFR).

Examples of Public/Private Partnerships

Public/private partnerships (PPP) take many forms, but the examples offered here illustrate the idea of a private developer providing public facilities as part of a private development project. Mixing public and private projects into one development adds complexity in both the initial development and on-going operations for both the private and public partners, which lessens their appeal to the development community.

From a public entity perspective, the ideal PPP results in a private development covering the cost of the public facilities, but most PPP projects involve public financing assistance to cover a portion of the public facilities cost. Public financing may include publicly owned land cost write down, tax exempt financing for residential development or infrastructure, contribution or waiver of development impact fees, or community facilities district tax and bond financing.

The PPP approach is also used to describe private construction of public buildings through the design-build process. Attachment A has a table of resources that describe many PPP forms and provides examples. Most of the examples are major infrastructure or public buildings projects that are not directly applicable to Oakley's objective for a privately financed community center. However, there is one nearby project that is on point with the Oakley mixed-use project. It is summarized in the following section and described in more detail in Attachment A.

Bay Point Orbisonia Mixed-Use Project

A summary of Bay Point Orbisonia Mixed-Use Project is provided below.

- Contra Costa County owned parcel of 7.6 acres total; the first phase released for development is 3.3 acres.
- The first phase (Phase A) consists of 150 residential units and a 21,000 square foot library.
- All residential units are affordable, requiring tax credit financing for economic feasibility.

- The County land will be sold to a developer for approximately $6 million. The payment consists of the developer's obligation to construct and convey back to County the library space at a cost to the developer of $4.2 million, plus a $1.8 million loan from the County to the developer to be repaid from residual income from the project over time.
- The private design and construction of the public library space is a form of the design-build PPP method.
- Parking for the library is separate from the residential parking, consisting of low-cost surface parking surrounding the site.

While the Bay Point project illustrates how a private development can provide the funding for a public library, there are a few important differences from the Oakley project, as noted below.

- The Phase A site area is approximately three times the size of the combined Oakley parcels, allowing a greater number of residential units.
- The allowed residential density is 65 units per acre which is 2.7 times the allowed density in the Oakley Downtown Specific Plan.
- The residential development will be financed with low-interest public tax credit financing.
- The agreed upon construction cost of the library is approximately $200 per square foot ($4.2 million) versus the $600 per square foot assumed for the Oakley library to be financed by Measure K ($12 million).

Initial Feasibility Analysis of the Oakley Project

Mixed-Use Development Concept

The proposal to be tested by the analysis is whether a public/private partnership can be utilized to construct a new community center (library, senior center, and veteran's hall) as part of a mixed-use project that includes multi-family residential, a portion of which must be affordable to lower income households pursuant to state law. The concept includes creating enough income from a private residential development project to fund all or a portion of the public community center improvements.

Based on discussions with staff, the following elements in Table 1 would ideally be included in a new community center, with the size of these uses set forth in Alternative A. As the community center uses have a greater construction cost and require more parking than the residential units, a smaller sized community center is also analyzed in Alternative B. Possible County satellite services space is not included in this initial analysis but can be included in a more detailed analysis by the next consulting team.

Table 1. Community Center Program

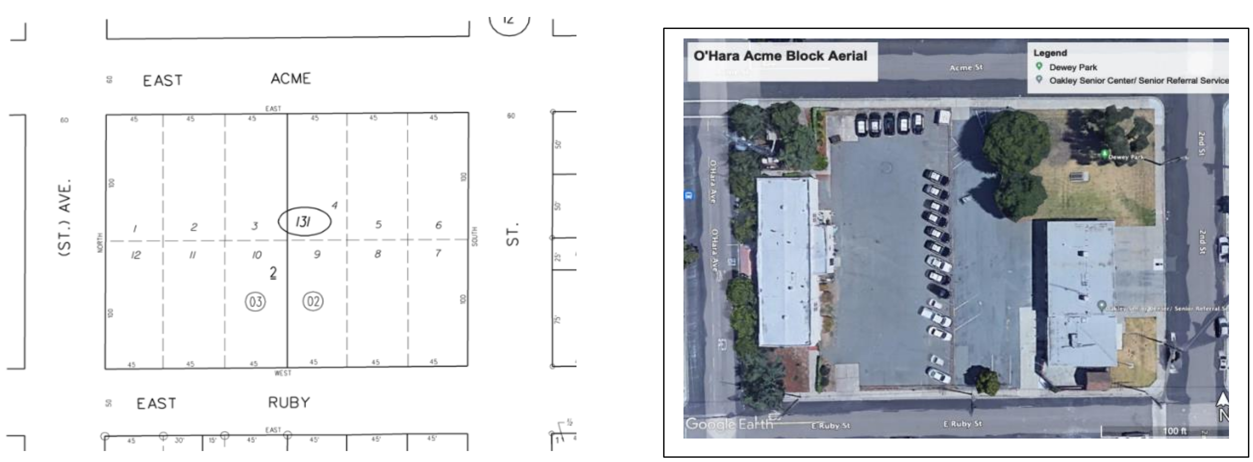
Element	Existing Space	New Alternative A	New Alternative B	Notes
Library	3,000 square feet (sf)	25,000 sf	15,000 sf	20,000 proposed for ballot K
Senior Center	2,500 sf	5,000 sf	2,500 sf	Replace to expand site
Veterans Hall	0	5,000 sf	2,500 sf	New facility
Totals	5,500 sf	35,000 sf	20,000 sf	15,000 to 30,000 increase

There are several elements be considered in such a partnership including site area, state and City regulations, property sale, project ownership, mixed private and public financing, and site planning. These elements are discussed in the following sections and development examples.

Property Parameters

The property under consideration consists of two parcels that are together an entire downtown block as shown in Figure 1. One parcel is currently owned by the County and will be sold to the City pursuant to the adopted City/County Cooperative Agreement. The other parcel is the City-owned Senior Center parcel. Each parcel is 27,000 square feet, and the combined parcels create a 1.2-acre site (54,000 square feet). The County parcel alone is not sufficient in size to accommodate a 20,000 to 35,000 square foot community center, its required parking, and private residential development. This analysis assumes the entire block for the site area with the construction of new replacement senior center space to allow the existing senior center parcel to be combined with the County parcel.

Figure 1. Site Area O'Hara/Acme Block



Private Development Parameters

Limitations on the amount of private development allowed is a function of both the City's land use regulations (Downtown Specific Plan) and the state law governing sale (or lease) of public property to a private developer (Surplus Land Act). These limitations are important to the PPP approach, as a greater amount of private development allowed equals a greater amount of private revenues generated to assist with the cost of constructing the public community center improvements.

City Regulations

The parcel is within the Downtown Support Area which is a subarea of the Downtown Specific Plan. This is considered a transitional area between the Downtown Core sub area and the lower density residential areas. The residential density limit for this sub area is 24 units per acre with a Conditional Use Permit. The Plan provides that: "Residential density shall be determined on a case-by-case basis as part of the Conditional Use Permit (CUP) process; the distribution shall be as indicated on the Subarea Map." The legend on the subarea map states: "Higher Density Residential Recommended in Some Areas".

The most significant constraint on development is the residential density limitation of 24 units per acre per the Downtown Specific Plan**.** For a full block site of 1.2 acres only 30 units are possible. This is a low density for a downtown site near a transit station. For a PPP to work, the amount of private development space needs to exceed the public space, which cannot occur at this density limit.

The next significant development limitation is the required parking. The residential parking requirement of one space per unit (one and two-bedroom units) is reasonable; but the commercial space requirement that applies to the community center space of three to four spaces for each 1,000 square feet of commercial space generates a large parking requirement that limits revenue producing residential space.

Surplus Land Act (SLA)

The creation of a mixed-use PPP development will require the sale or long-term lease of all or a portion of the property to a private developer. This transaction will be subject to the state SLA which requires the City to declare the property surplus before it can be disposed of. The property must be made available for purchase first to affordable housing developers for a specified length of time, with requirements to negotiate with interested parties. The offering of the property must be made through a Notice of Availability (NOA) sent to the state for distribution to its list of affordable housing developers. The City may supplement this list with its own developers who may be interested in the PPP opportunity.

The SLA also limits the City on the conditions it can place on the development, and the conditions must be reviewed by the State Department of Housing and Community Development (HCD) prior to the initiation of negotiations with a developer. Subject to the review of these SLA requirements by the City Attorney, it is recommended the City consult first with HCD on the acceptability of the community center/mixed-use PPP structure and conditions to be incorporated in the NOA, prior to the City taking any action to declare the property surplus, and prior to the City issuing an RFP for further design and economic consultant services. If the state determines a community center cannot be a condition of the property sale, then the options for this PPP concept will be limited.

In addition to the state limitation on conditions that can be attached to an NOA, the SLA requires a minimum of 25% affordable units in a residential development proposed for surplus property, affordable to lower income households (60% of area median income). The lower restricted rents of affordable units reduce the value of the project and the amount of financing that can be supported.

Often cities sell their land for below market value or provide housing fund subsidies to offset the loss of income from the affordable units to make the project financially viable and to attract lenders and investors for financing.

In this PPP scenario the City is attempting to maximize the amount of funds the private development will generate to assist with the cost of the public community center space. The greater percentage of affordable units in the development, the less revenue the private development will generate for the public space. The state's 25% SLA requirement is a given, but no additional affordable units are assumed in this analysis to maximize the private revenue for the public space.

Mixed-Use Oakley PPP Development Examples

Following are three examples of how a PPP could finance a portion of the cost of constructing new community center facilities as part of a mixed-income rental residential project. The first example follows existing City development regulations for low density residential. The second illustrates how changes in density limits and parking standards and the size of the community center affects the project economics. The third example includes an analysis of the site next to City Hall as part of the development program. Each example includes a table with the development assumptions as well as a table demonstrating how much revenue could be anticipated from a private development to assist with the cost of constructing the public community center improvements.

Example 1. Low Density Development Under Current Regulations with Large Community Center

Development Parameters

Table 2 shows the development parameters for this example, including the number of residential units and size of the community center. The number of residential units conforms to the Specific Plan at 24 units per acre, and the community center is larger than the Measure K library and adds the senior center and veteran's space. The 1.2-acre site area consists of the two City/County parcels, which comprise the entire O'Hara/Acme block.

Table 2 Current Regulations Development Parameters for a Mixed-Use Development

*sf = square feet; DU = dwelling units

Item	SF/DU*	Parking	Notes
Residential Program	30 Units Total	30 spaces	Assumes all units 1 and 2 bedrooms; 24 DU/acre
Market Rate	22 units		
Affordable	8 units		25% per Surplus Land Act (SLA)
Community Center Program	35,000 sf Total	105 spaces	3/1,000 sf 2nd floor commercial standard
Library	25,000 sf		
Senior Center	5,000 sf		
Veterans Hall	5,000 sf		
Height Limit	50 feet		
Site Area	54,000 sf		1.24 acres
Area Required for Parking	43,900 sf	135 spaces	@ 325 sf/space; Allows community center ground floor lobby

The largest design driver in this development scenario is the size of the community center and the 105 spaces of parking required. Parking required for both the residential and the community center occupies approximately 80% of the ground floor area. The community center and residential occupy the second and third floors respectively, on top of a podium above the parking. The podium design keeps the cost of the parking, which is a major cost factor, to a minimum. These three uses can be accommodated within the 50-foot height limitation. The small footprint of the residential portion could allow some third-floor open space.

It should be noted that the grand airy design of the community center space as depicted by the Noll & Tam drawings for Measure K (see Attachment B), with approximate 20- to 30-foot ceiling heights, is likely not achievable with residential units above the community center space. It is possible to have a 15-foot ceiling for the garage space, 20-foot height for the community center space and 15-foot height for the residential space within the 50-foot Downtown Specific Plan height limits. A portion of the remaining ground floor space not used for parking could include a lobby for the library and either the senior or veterans uses. This alternative may require a vertical subdivision of the parcel or long-term lease of the community center space as well as a reciprocal easement agreement for the community center parking. (See discussion in section entitled, Mixed-Use Development and Ownership Structures – O'Hara Site.)

<u>**Economic Calculations**</u>

Table 3 illustrates the amount of revenue the private residential development might create to support the community center costs.

Table 3 Economics for a Mixed-Use Development with Current Regulations

Item	SF/DU*	Amount	Notes
Development Cost			Low Density 30 Units
Development Cost - Residential	$430 sf	$9,589,000	$375 SF Const. + 15 % profit $55 SF
Development Cost – Comm. Center	$600 sf	$21,000,000	Per Measure K assumption; 35k sf
Land Cost	$0	$0	Land value contributed to community center cost
Total Development Cost		$30,589,000	
Development Income - Residential			
Market Rate Units – 15 (1br)	750 sf/$2,363	$425,250	Unit size/mo. rent & annual income
Market Rate Units – 7 (2br)	950 sf/$2,660	$223,440	Unit size/mo. rent & annual income
Affordable Units – 8 (1br) @ 60% AMI	550 sf/$1,715	$164,640	Unit size/mo. rent & annual income
Gross Income		$813,330	Rents based on survey of area apts.
Less Operating Expenses @ 30%		$243,999	
Equals Net Operating Income		$569,331	
Divided by Capitalization Rate	5%		For Bay Area apartments
Equals Project Value		$11,386,000	Rounded
Residual Value		$1,797,000	To fund community center cost
Community Center Financing			
Development Cost – Community Center	$600 sf	$21,000,000	Per Measure K assumption; 35,000 sf
Less PPP Residual Value		$1,797,000	
Equals Initial Financing Gap		$19,203,000	
Less Existing CIP Development Fees		$2,300,000	
Equals Net Financing Gap		$16,903,000	

*sf = square feet; DU = dwelling units

Under this current regulation's scenario, the residential project could generate approximately $1.8 million in residual value, which would normally be used for a land payment. The City could use this instead to pay for a portion of the cost of the community center. Since this is a small portion of the community center costs, additional City funds would be necessary. Existing capital improvement funds from Facility Development Impact fees could be used. The CIP has $2.3 million in uncommitted Public Facility Impact fee funds that are assumed to be allocated in each of the scenarios. Other sources of public funds are discussed in a following section. The goal to have the private development pay for most of the public facilities cost under this scenario is hampered by the low density of residential allowed, and the higher amount of public space to be supported.

Example 2. Medium Density Development – Smaller Community Center

Development Parameters

Under this scenario the residential density is doubled to 48 units per acre allowing 60 units (which requires an amendment to the Specific Plan). The community center is reduced to a total of 20,000 square feet, which includes library, senior center and veterans uses and assumes sharing of some spaces.

This reduced size of the community center allows a design solution similar to the Bay Point project with a two-story community center on a separate parcel (instead of a vertical subdivision or long-term lease). The Bay Point Phase A ground floor plan in Attachment A illustrates how the Oakley community center can be located adjacent to the parking rather than above it. Parking for the community center is assumed at 3.5/1,000 reflecting a blend of the different parking standards for ground floor (4/1,000) verses second floor (3/1,000) commercial and would require a reciprocal easement agreement with the residential parcel for parking rights. The smaller community center space allows parking to be allocated to the additional residential units within a single ground floor parking level. Table 4 shows the assumptions.

Table 4 Mixed-Use Development - Medium Residential Density Development Parameters

Item	SF/DU*	Parking	Notes
Residential Program	60 Units Total	60 spaces	Assumes all units 1and2 Bedrooms; 48 DU/Acre
Market Rate	44 units		
Affordable	16 units		25% per Surplus Land Act (SLA)
Community Center Program	20,000 sf Total	70 spaces	3.5/1,000 sf blended commercial standard
Library	15,000 sf		
Senior Center	2,500 sf		
Veterans Hall	2,500 sf		

Item	SF/DU*	Parking	Notes
Height Limit	50 Feet		
Site Area	54,000 sf		1.24 acres
Area Required for Parking	42,250 sf	130 spaces	@ 325 SF/Space; Allows setbacks for pkg area

*sf = square feet DU = dwelling units

This alternative could be a total of three floors with 15-foot ground floor parking and two residential floors above (12 feet each) and fit within the 50-foot height limitation. The community center portion of the project could be two stories with moderately high ceilings for both floors (15- to 20-feet each)

Economic Calculations

Table 5 illustrates the amount of revenue the private residential development might create to support the community center costs with the adjusted development assumptions.

Table 5 Economics for a Mixed-Use Development with Medium Residential Density

Item	SF/DU*	Amount	Notes
Development Cost			Medium Density 60 units
Development Cost - Residential	$430 sf	$19,178,000	$375 sf const. + 15 % profit $55 sf
Development Cost – Community Center	$600 sf	$12,000,000	Per Measure K assumption
Land Cost	$0	$0	Land value contributed to community center cost
Total Development Cost		$31,178,000	
Development Income - Residential			
Market Rate Units – 30 (1 br)	750 sf /$2,363	$850,500	Unit size/mo. rent & annual income
Market Rate Units – 14 (2 br)	950 sf/$2,660	$446,880	Unit size/mo. rent & annual income
Affordable Units – 16 (1br) @ 60% AMI	550 sf/$1,715	$329,280	Unit size/mo. rent & annual income
Gross Income		$1,626,660	

Item	SF/DU*	Amount	Notes
Less Operating Expenses @ 30%		$487,998	
Equals Net Operating Income		$1,138,662	
Divided by Capitalization Rate	5%		For Bay Area apartments
Equals Project Value		$22,773,240	
Residual Value		$3,595,000	To fund community center cost
Community Center Financing			
Development Cost – Community Center	$600 sf	$12,000,000	Per Measure F assumption
Less PPP Residual Value		$3,595,000	
Equals Initial Financing Gap		$8,405,000	
Less Existing CIP Development Fees		$2,300,000	
Equals Net Financing Gap		$6,105,000	

*sf = square feet; DU = dwelling units

Under this scenario the residual value to contribute to the community center cost (instead of a land payment) doubles to $3.6 million. The lower cost of the community center has an even greater influence on narrowing the financing gap, which drops by $11 million from the first example. The lower gap looks more feasible to close with additional public financing discussed in the "Other Sources of Public Financing" section.

Example 3. City Hall Norcross Vacant Parcel and O'Hara/Acme Parcel

<u>**Development Parameters**</u>

Under this scenario the parcel next to City Hall that was contemplated for a public library for Measure K (near Norcross Lane) is included for the PPP along with the O'Hara/Acme block. (See Figure 2.) The following assumptions are made for this example:

- A single-story community center of 20,000 square feet located on the Norcross parcel, consisting of a 15,000 square foot library, plus space for the senior and veterans uses at 2,500 square feet each.
- The public space is parked at 100% on Norcross parcel.
- O'Hara/Acme parcel is a private residential development only, no public uses.
- Higher density residential of 133 units per acre on the O'Hara/Acme parcel based on amount of ground floor parking possible.

Figure 2.   Additional Norcross Lane City Hall Parcel # 076

Table 6   City Hall Norcross & O'Hara/Acme Two Sites Development Parameters – Higher Density

Item	SF/DU*	Parking	Notes
Residential Program	160 Units Total	160 spaces	Assumes all units 1&2 Bedrooms; 133 DU/acre
Market Rate	120 units		
Affordable	40 units		25% per Surplus Land Act (SLA)
Community Center Program	20,000 SF Total	62 spaces	62 required
Library	15,000 sf		
Senior Center	2,500 sf		
Veterans Hall	2,500 sf		
Height Limit	50 Feet		

Item	SF/DU*	Parking	Notes
Site Area – O'Hara	54,000 sf		1.24 acres
Site Area - Norcross	42,500 sf		.995 acre
Area Required for Parking O'Hara	52,000 sf	160 spaces	@ 325 SF/Space; under podium O'Hara site
Area Required for Parking Norcross	20,150 sf	62 spaces	Surface parking

*sf = square feet; DU = dwelling units

The advantages of partnering on two sites from a design standpoint include:

- Community center building area and parking are more visible to the public and access is easier.
- Locating the community center adjacent to City Hall allows shared surface public parking and creates a contiguous and cohesive Civic Center complex.
- Land ownership structure is simpler: City sells O'Hara site to the developer and retains ownership of Norcross parcel. No reciprocal parking easement, vertical subdivision, air rights, or long-term lease are needed for the community center.
- The City has the option of a design-build arrangement with the residential developer for the community center, or the traditional public design/bid process independent of the developer.
- If the community center is constructed as a two-story structure it would allow for potential future expansion. The smaller footprint would also allow the parking requirement to be met on-site instead of sharing with City Hall parking.
- Residential density can be significantly increased on the O'Hara parcel to yield substantially more residual value for funding the community center (as shown in Table 7 below).
- The residential project is built on a podium above ground floor parking, with three levels of residential that fits within the 50-foot height limitation.

Economic Calculations

Table 7 Norcross and O'Hara/Acme Two Sites Higher Density - Economics

Item	SF/DU*	Amount	Notes
Development Cost			Higher Density 160 Units
Development Cost - Residential	$430 sf	$50,740,000	$375 SF Const. + 15 % profit $55 SF
Development Cost – Community Center	$600 sf	$12,000,000	Per Measure K; 20K sf
Land Cost	$0	$0	Land value to fund community center cost
Total Development Cost		$62,740,000	

Item	SF/DU*	Amount	Notes
Development Income - Residential			
Market Rate Units – 90 (1br)	750 sf/$2,363	$2,551,500	Unit size/mo. rent and annual income
Market Rate Units – 30 (2br)	950 sf/$2,660	$957,600	Unit size/mo. rent and annual income
Affordable Units – 40 (1br) @ 60% AMI	550 sf/$1,715	$823,200	Unit size/mo. rent and annual income
Gross Income		$4,332,300	
Less Operating Expenses @ 30%		$1,229,690	
Equals Net Operating Income		$3,032,000	
Divided by Capitalization Rate	5%		For Bay Area apartments
Equals Project Value		$60,652,000	
Residual Value		$9,912,000	To fund community center cost
Community Center Financing			
Development Cost – Community Center	$600 sf	$12,000,000	20,000 sf center
Less PPP Residual Value		$9,912,000	
Equals Initial Financing Gap		$2,088,000	
Less Existing CIP Development Fees		$2,088,000	
Equals Net Financing Gap		$ 0	

*sf = square feet; DU = dwelling units

This scenario yields the greatest private residual value contribution to fund public community center facilities. It also yields the greatest number of affordable units to assist with compliance for the City's regional housing goal. Although the residential density is more than development densities currently allowed, the development still fits within the existing height limits, and takes advantage of the proximity to the train platform as a transit-oriented development.

Separating the public and private uses will simplify the financing for both, but still offers the option to have the community center constructed by the private developer through a design-build method if City leaders desire. The public facilities financing gap can be addressed with different approaches discussed in the section below entitled, “Other Sources of Public Financing”.

Other Sources of Public Financing

For all scenarios there is a financing gap that will need to be closed with public funding. In addition to the $2.3 million of existing unallocated public facilities fees, there are other potential funds to be explored in the next phase of this analysis as described below.

- **Future Public Facilities Impact Funds.** The facilities development impact fee is $3,839 per single family unit. There are 5,000 single family units that have been approved but have not yet paid their impact fees. This is a potential source of revenue to close the financing gap. These funds could be accessed by delaying moving forward with the project until the funds have been collected or could be accessed in the near term through internal borrowing from general fund reserves to be repaid by the facilities fees as they are collected. Per the Capital Improvement Program (CIP) budget it is anticipated that $1.875 million will be collected over the next five years (equal to 488 units). It is also possible this fee could be increased by adding the community center to the list of future facility needs and adjusting the fee upward to cover the additional cost. This may require an updated nexus study and the increase would be applicable only to new community service demands from the new units.

- **Other CIP funds.** The City might consider allocating a portion of the American Rescue Plan Act (ARPA) federal funds it has received, although there are many competitive proposals that exceed the funds available.

- **Debt Financing.** Per the City’s ACFR, there is approximately $8.5 million in previously issued lease revenue bonds to refinance prior certificates of participation and fund the construction of the new City Hall. If there is sufficient flexibility in the General Fund to pay debt service, a similar mechanism could be used to close the financing gap.

  Under Example 3, the larger residential project with a value of approximately $60 million would generate $600,000 in new property tax revenues to all taxing entities. The City’s share of this 1% tax is 8% or $48,000 in annual revenues. Table 8 shows the amount of annual debt service that might be needed to support a debt issuance sufficient to meet the financing gap after community facilities fees are applied. City leaders should explore whether future facility impact fees could be used for debt service, prepay the debt, or be accumulated in a debt service fund for years when General Fund revenues dip due to recession or other financial setbacks.

- **Enhanced Infrastructure Financing District (EIFD).** This mechanism would be difficult to implement and is mentioned as a remote possibility. An EIFD could be created for the downtown area to collect future property tax increments above the existing tax levels. This revenue stream could help support debt service on debt financing. To generate any meaningful

annual revenues, the consent of the County would be required to participate with its share of the tax revenues (11%). It is possible the County might be interested in assisting with a library facility in a EIFD with a limited duration since they will operate the library.
The City's 8% share of property taxes combined with the County's 11% would be 19% of any new property taxes. If the EIFD area included the O'Hara block, and the higher density development with a $60 million value were developed, the City could realize annual property tax revenues of $48,000 and the County $66,000, for a combined $114,000 that could support approximately $2.2 million in debt financing (30-year term at 3% interest). The County's potential interest could be assessed if this mechanism is of interest to City leaders.

The community facilities financing gap and potential offsets for the three scenarios are summarized in Table 8.

Table 8 Funding Examples for Financing Gap

Examples	Funding Gap	Future Fees*	Debt**	Debt Service***
Example 1. O'Hara Low Density	$ 16,903,000	$ 1,8750,000	$ 15,028,000	$ 766,717
Example 2. O'Hara Medium Density	$ 6,105,000	$ 1,8750,000	$ 4,230,000	$ 215,811

*Five years facilities fees
**Tax exempt financing
*** 3% rate, 30-year term, annual payment

Mixed-Use Ownership and Development Structures – O'Hara/Acme Site

It will be necessary to sell the O'Hara/Acme site to a developer for the residential development. For Examples 1 and 2, where the private development and the public community center share the same site, the community center space would need to be developed and owned under some type of long-term control of the City. This could be accomplished through a vertical subdivision of the parcel or long-term (e.g., 99 years) lease arrangement with the residential developer.

A vertically mixed-use project (Example 1) will require a long-term relationship between the City and the Developer for operations and maintenance. An operating agreement will be needed to identify areas of responsibility for items such as leaks, drainage, parking controls, noise abatement, elevator and utility shaft easements etc. Vertically mixed-use and mixed ownership projects can and are accomplished, but they are complex to finance and operate long term.

Another consideration is the design and construction of the development. One contactor constructing both the public and private portions of the project on one block is the most efficient for Examples 1 and 2. It does, however, require that the City create a set of design specifications for the public space to identify what the private developer is responsible for delivering.

Conclusion

The following are the major points to highlight from the analysis:

- The economics of a PPP do not fully fund the public improvements but are close enough under certain scenarios to warrant a more detailed analysis by a team of design and economic consultants, if the City is willing to consider higher density development, dedication of the public facilities fees, and some form of debt financing.
- There are many design variables that affect project cost and project desirability. There are many potential iterations of development size and financing that can be undertaken by a team of experts with City guidance.
- A large variable in the feasibility is the size and design quality of the community center. Recent libraries constructed elsewhere in the East Bay have per square foot construction costs higher than the $600 per square foot assumed for the Measure K analysis. Phasing the facility might be a way to create an initially smaller facility within the financing available with expansion in the future as additional funds become available.
- Utilizing two sites (O'Hara and Norcross) reduces project construction and the complexity of ongoing operations and allows the maximum private revenues to support the public facilities, provided the City is willing to support higher density. This alternative also concentrates the library, senior center, and veteran's hall adjacent to City Hall for a combined civic center.

Next Steps

Management Partners recommends the following to move from this preliminary analysis phase to a more detailed analysis.

1. City Council provides feedback on conclusions from the initial analysis. Discuss the parameters for development, parcels to be included, and public financing methods.
2. Test development and financing scenarios with County staff.
3. Develop a draft Notice of Availability (NOA) with the conditions for a mixed-use PPP development. Review NOA with HCD for agreement that the City can proceed with an NOA with the public community center requirements as part of the development conditions.
4. If HCD supports the mixed-use/PPP conditions, draft an RFP for a team of architectural and financial consultants to further refine the development and financing parameters to be included in an NOA. Consider City Council approval of the RFP before it is distributed.
5. Review the consulting team's detailed analysis with the City Council for further action.

Attachment A – Oakley Library Project and Examples of Public Private Partnerships

Contra Costa County Bay Point Orbisonia

This example is the most directly comparable to the objectives of the Oakley Library project since it is of the same scale and involves private development creating income to fund a public building (as opposed to infrastructure).

Master Development Agreement Terms

The site is a prime developable location at 530-625 South Broadway Avenue near the Bay Point BART Station adjacent to Pittsburg. The County-owned parcel is a total of 7.6 acres divided into two sites/phases A and B, and was offered pursuant to a Request for Qualifications in 2017.

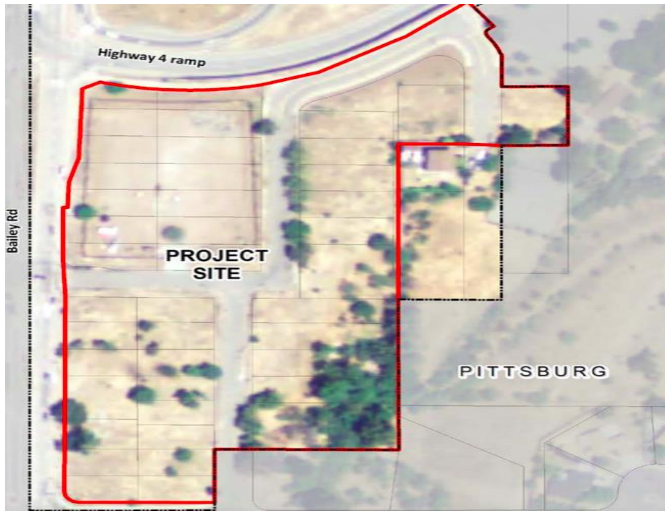
Development assumptions for the Orbisonia Heights site include:

- Phase A: 150 affordable multi-family residential units, a 20,900 square foot library, and parking for 189 vehicles.
- Phase B will include: **4**0,000 square feet of commercial space with frontage on Bailey Road or within a plaza, plus 195 multi-family residential units based on a density of 65 dwelling units per acre, as designated by the Specific Plan (with a minimum of 40 dwelling units per acre).

Residential off-street parking of 1.3 to 1.5 spaces per dwelling unit is required for the site. Commercial parking of 3.3 parking spaces per 1,000 square feet of net rentable area is also required. The parking standards are lower than typical County developments due to the proximity to transit.

Building height requirements allow four stories over parking or a maximum of six stories up to a height of 65 feet. A minimum of 15% of new housing should be affordable to very low income- (6%) and moderate-income households (9%) based on Redevelopment Agency requirements. The developer may also request that the County consider issuing Private Activity Bonds for a multiple-family rental project.

Site Area – 7.6 Acres



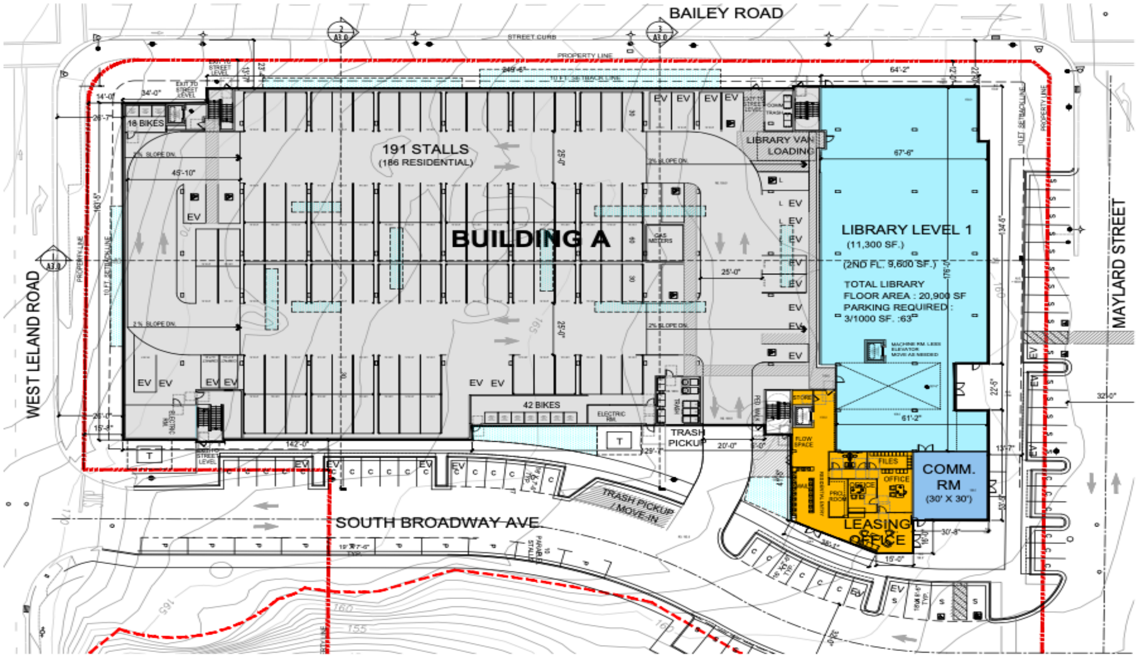
May 2022 Disposition and Development Agreement (DDA) Terms: Phase A

The Phase A project includes 150 affordable multi-family residential units, and a County-owned library of approximately 21,000 square feet. The County will sell 3.3 acres of the property (143,750 square feet) to developer Pacific West Properties. The land cost to the developer is approximately $6 million, consisting of the developer's obligation to construct the $4.2 million two-story library at no cost to the County and a $1,796,875 loan to the developer in "seller carryback financing" which will be made by the County.

The land loan terms include 3% interest and annual payments to be 50% of residual receipts (excess income over expenses, if any). The site area, net of the 11,300 square foot library parcel to be conveyed back to the County equals 132,450 square feet. When divided into the $6 million equivalent land cost it equals $45 per square foot land value. Almost all the units will qualify as either extremely low income at 30% of area median income (AMI), very low at 50% AMI, or low at 60% to 80% AMI. The DDA provides for low-income tax credit financing to finance the majority of the development, requiring an allocation of tax credits from the state.

The developer has agreed to construct the library improvements, at a cost to the developer of not less than $4,200,000 ($210 per square foot), using plans and specifications (design development plans) approved by the County, and then conveys the library parcel and improvements to County at no cost. The library parking ratio is 3/1,000 requiring 63 spaces, which are provided on-street on two of the four streets surrounding the parcel and are not part of the residential garage. The parcel conveyance may not be subject to the Surplus Land Act as it is exempt due to the use being 100% affordable units (Section 103 (b) (3) (A)). The developer was selected using an RFQ/RFP process established by the County.

Phase A Ground Floor Plan



Library and Residential Elevation

Two Story Library with Residential Above

Resources for Public Private Partnership (PPP) Examples

Table 9 has resources for PPP projects that illustrate several different types of partnerships to fund various public improvements, primarily infrastructure projects such as streets/utilities, water delivery or large-scale public buildings. Many examples illustrate how public financing is used, as well as private construction of public facilities through various forms of design-build. The examples are not directly comparable to the Oakley project, but certain financing and construction approaches are useful to consider.

Table 9 Resources for Public Private Partnerships

Agency / Date	Description	Website / Link
DOT/FTA (2018)	Basic information on PPP and TOD, with links to specific transit projects that include profiles about funding sources, delivery methods, private partners, consultants, etc.	https://www.transit.dot.gov/funding/funding-finance-resources/private-sector-participation/private-sector-participation-and
NMBL Strategies (2022)	*"5 examples of PPP in implementation"* Includes reference links to other PPP-related articles	https://www.nmblstrategies.com/blog/5-examples-of-public-private-partnerships-in-implementation
National League of Cities (undated but recent)	Article on PPP with examples and reference links *"Public private partners a solution to aging infrastructure"*	https://www.nlc.org/article/2020/09/01/public-private-partners-a-solution-to-aging-infrastructure/
Bay Area Council Economic Institute (2018)	*"PPP in California"* This is a 60-page document on specific PPP examples in California (past five years, in development, planned, etc.). Each example includes brief descriptions on project background, procurement and financing, key innovations, and results. Includes chapter on procurement and financing innovations	https://www.dropbox.com/s/mqvfdlzozil0zdy/Bay%20Area%20Council%20PPPinCalifornia.pdf?dl=0
League of California Cities (2021)	Good overall resource/reference on PPP	https://www.dropbox.com/s/nv2099s9dakpffl/League%20CA%20Cities%20Public-Private-Pa.pdf?dl=0

Attachment B – Noll & Tam Measure K Library Interior Perspective